

A close-up photograph of a person's hand holding a white pen, pointing at a bar chart displayed on a tablet screen. The chart features several horizontal bars in shades of green, brown, and red, set against a blue grid background. The person is wearing a blue suit jacket. The overall scene suggests a professional or financial context.

Southampton City  
Council

## **Value for Money report**

Year ended 31 March 2023

February 2024

1 February 2024



Dear Governance Committee Members

2022/23 Value for Money Report

We are pleased to attach our Value for Money report for Southampton City Council. The report summarises the findings from our 2022/23 value for money work, and to date in 2023/24. The report sets out the risks identified and the findings from our detailed assessment including a commentary on the three reporting criteria and a summary of the arrangements in place.

This report is intended solely for the information and use of the Governance Committee and management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Governance Committee meeting on 12 February 2024.

Yours faithfully

Kevin Suter

Partner

For and on behalf of Ernst & Young LLP

Encl

# Contents

## 01 Executive Summary



## 02 Value for Money Commentary



## 03 Appendices



Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment and further guidance (updated April 2018)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Governance Committee and management of Southampton City Council in accordance with our engagement letter. Our work has been undertaken so that we might state to the Governance Committee and management of Southampton City Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Governance Committee and management of Southampton City Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



BOARDROOM

# 01 Executive Summary



# Executive Summary

## Purpose

The purpose of the report is to set out the Value for Money (VFM) work undertaken up to and including the 2022/23 financial year. The report aims to draw to the attention of the Council, or the wider public, relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

We are required to report on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03).

The report sets out the following areas which have been assessed up to the point of issuing this interim report to the Governance Committee:

- Risks of significant weakness and procedures planned to mitigate these
- Findings of our work against the three value for money reporting criteria and the sub-criteria
- Summary of arrangements in place over the period covered by this report.

We will summarise our final view of the value for money arrangements as part of the Auditor's Annual Report, once the audit report has been issued for 2022/23.



# Executive Summary (continued)

## Risks of Significant Weakness

Our value for money procedures are based on the judgements reached from a combination of:

- our cumulative audit knowledge and experience;
- our review of Council committee reports;
- meetings with the Chief Executive, the Executive Director Corporate Services & s151 Officer and other finance officers, and the Chair of the Improvement and Assurance Board; and
- evaluation of associated documentation through our regular engagement with Council management and the finance team.

We identified a significant weakness in the Council's arrangements in relation to financial resilience as part of our risk assessment procedures. We consider this weakness to affect all three of the criteria for value for money.

# Executive Summary (continued)

## Reporting

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

Reporting Criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
<b>Financial sustainability:</b> How the Council plans and manages its resources to ensure it can continue to deliver its services	Risk of significant weakness in arrangements identified in 2022/23 and 2023/24	Significant weakness identified
<b>Governance:</b> How the Council ensures that it makes informed decisions and properly manages its risks	Risk of significant weakness in arrangements identified in 2022/23 and 2023/24	Significant weakness identified
<b>Improving economy, efficiency and effectiveness:</b> How the Council uses information about its costs and performance to improve the way it manages and delivers its services	Risk of significant weakness in arrangements identified in 2022/23 and 2023/24	Significant weakness identified

Our commentary for 2022/23 and to date for 2023/24 is set out over pages 9 to 16. The commentary on these pages summarises our overall conclusions over the arrangements at the Council in relation to the reporting criteria throughout 2022/23, and into 2023/24 to date.

We include within the VFM commentary the associated recommendations we make to the Council.

Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2021/22 Annual Auditors Report and have been updated for 2022/23, and we have specified where in our judgement weaknesses have existed for 2022/23 against the relevant sub-criteria.



# Executive Summary (continued)

## Independence

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2022 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.





02

## Value for Money Commentary

# Value for Money Commentary

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

## Significant weakness identified

Financial monitoring for 2022/23 identified that the Council was struggling to keep spending within set budgets for the year, and the year end outturn showed a deficit of £11.4 million which was met by a drawdown from reserves. The Council have continued on this trajectory during 2023/24 and as at November 2023, were forecasting a deficit of £13.9 million for the 2023/24 financial year.

Many of the key drivers of the budget pressures in 2022/23 are because of a variety of national issues generally outside of the Council's control. They include:

- high levels of inflation and the cost-of-living crisis impact
- sharp increases in the costs of energy for the Council
- higher than expected nationally set pay awards
- rising interest rates including impacts on contractual costs and continues to influence the costs arising from the capital programme
- continuing high demand for Council services, especially in the field of social care for both Adults and Children, but also other key areas such as Home-to-School Transport
- on-going effects of Covid-19, in terms of the demands for local services

These pressures continued into the original 2023/24 budget, set in February 2023. As part of the 2023/24 budget setting in February 2023 the s151 officer at the time raised concerns over the lack of decisions and actions within directorates being taken to get expenditure back under control. He raised the possibility of the need for a future s114 notice without sufficient action being taken.

Since then, the Council appointed a new s151 officer, who implemented a further review with an updated 2023/24 budget being issued in July 2023.

The Council have recognised the significance of the financial position that they are in and have initiated a number of actions to assist them in mitigating the position, including setting up a Improvement and Assurance Board (IB), and commissioning a report from CIPFA to look at their financial management and perform a financial resilience review.

The purpose of the IB is to:

- provide external advice, challenge, and expertise to Southampton City Council in driving forward the development and delivery of their improvement plan and transformation programme;
- provide assurance to key stakeholders including but not limited to Cabinet, External Auditors, Governance Committee, Overview and Scrutiny Committee, regarding progress in delivering necessary savings and improvements; and

# Value for Money Commentary

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services (continued)

## Significant weakness identified

- To provide regular progress reports to the Council on the delivery of the improvement plan and to seek assurance that key decisions are made cognisant of the financial implications and impact on in-year budgets and the medium term financial strategy (MTFS).

The CIPFA report concluded that the financial position for both 2023-24 and 2024-25 continues to be precarious and requires continuing action to reduce expenditure and address the deficit. The Council needs to develop a financial recovery plan to cover the period of the MTFS. The plan should be built round supporting the council's financial position not just in the short-term but for the medium and longer-term. A service improvement plan needs to identify clearly how the structural changes required to bring about sustainable reductions in expenditure in Adult Social Care and Looked After Children areas in particular will be delivered.

In our judgement slower than expected progress was made through to December 2023. There was a focus on the in year budget position for 2023/24 reducing the forecast overspend from £21 million initially forecast at month 3, down to £13.9 million overspend forecast at the end of November 2023. However, this is still an overspend and more savings needed to be identified to reduce the call on reserves. Cumulatively, since 2021/22 the expected drawdown on reserves by the end of 2023/24 is expected to be £82.9 million. Limited progress was also made to mitigate the future medium financial position. As at December 2023, the Council had not made significant in-roads into the projected gaps for 2024/25 and beyond. There was an expectation of the development of a transformation plan, that would establish different ways of delivering services and reduce costs. Such a plan is still in development. Savings have been made through cost control and generating additional income, rather than transforming the way services are delivered. The level of reserves remaining is insufficient to cover the forecast future budget gaps.

We are informed that better progress has been made in January 2024. The Council have held workshops with involvement from officers and the Chair of the Improvement Board. The first of these focussed on challenging the achievability of the savings included in the November 2023 MTFS update report, which looks forward into 2024/25. There is still some work to ensure that the supporting business plans are robust and that the savings figures are achievable.

The second workshop focused on the 2023/24 financial position, challenges to the current forecasts and savings required in the shorter term.

There has been a change in Leader at the Council. The new Leader appears to be engaged, understands the financial position of the Council and is committed to drive the Council to resolve its financial situation.

The Chief Executive has also recently resigned with an interim Chief Executive appointed on 19 January 2024. The new Chief Executive's role will be instrumental in being able to ensure that the members and officers continue to work together to bring an achievable solution for the Council.

In order for the Council to achieve the changes needed for financial stability, the members and officers need to work together to take the decisions and actions needed. Some of these decisions are inevitably going to be difficult, because it is hard to envisage a scenario whereby they will not involve decisions to increase the Council's income, and to reduce costs through curtailment of services.

The Council are also seeking to bring in some experienced personnel to assist with transformation and the new asset development and disposal programme, which is

# Value for Money Commentary

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services (continued)

## Significant weakness identified

aimed at identifying which assets they should retain and develop and which ones they can dispose of. We note that capital disposals are ringfenced and cannot be used to support the revenue budget, unless a capitalisation direction is obtained or in accordance with the flexible capital receipts policy to meet transformation costs. Disposals may reduce costs in the short term, but they are not an immediate solution to resolve the gap in the revenue budget. Even with a capitalisation direction, this would be a short term solution only, and the underlying pressures would still need to be addressed.

Southampton City Council will not be able to set a balanced budget without government support. This is prima facie evidence that the Council has not been able to manage its financial sustainability, and the root cause is evident from 2022/23 in the overspending and reduction in reserves. To have a chance at success in receiving this support, the Council needs to show that their plans for improving the Council's financial position are robust and are having positive outcomes to be able to provide DLUHC with the confidence that providing such support is not just a short term solution.

At time of writing this report it is not clear whether government support will be received, and we will only see the outcome of the aforementioned better progress in January 2024 over the next few months including within the 2024/25 budget setting. If support is not received, it is unlikely a balanced budget can be presented and a s114 notice will be necessary. Should government support be provided, it is still likely that some of the savings plans supporting the budget assumptions may yet require further review and clarification into the new financial year, as the short period of time available between progressing these in January 2024 up to the budget setting meeting may limit the ability for every savings plan and opportunity to go through the challenge and review processes the council has put in place to assure their rigour.

This is the critical period where the Council needs to demonstrate that it can deliver on the pace and promise of the start they have made this calendar year. Irrespective of whether a s114 notice is required, this is imperative for the Council. It needs to take these actions, as part of developing its strategy to sustainably stabilise the Council's finances for the medium term and make the structural changes highlighted by the CPFA report.

**Conclusion: Based on the work performed, the Council did not have proper arrangements in place in 2022/23 and into 2023/24 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.**

### **Recommendations:**

- *The Council needs to ensure that it has fully considered all options for achievable savings that it can make to reduce the pressure on reserves and achieve a balanced budget.*
- *Savings need to be supported by robust delivery plans and monitored closely to ensure that they are achieved within planned timeframes.*
- *The Council needs to demonstrate that it can operate within its planned budget and control its expenditure, across all services.*
- *A transformation plan to underpin savings into the medium term needs to be developed.*

# Value for Money Commentary (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

## Significant weakness identified

Based on the information obtained and documented through our value for money work, we are satisfied that the control environment does materially support the prevention and detection of fraud. We are also satisfied that the Council monitors its risks, maintaining a Strategic Register and Key Financial Risk register which are presented to the Governance Committee. The Council has the proper arrangements in place with regards to reporting its financial position including its statutory accounts, preparing its draft 2022/23 financial statements by the deadline set by DLUHC.

However, we have identified issues with regard to the arrangements in place for the sub-criteria of:

- how it approaches and carries out its annual budget setting process; and
- how it ensures effective processes and systems are in place to ensure budgetary control ..... including corrective action where needed.

The Council was unable to deliver their services in the 2022/23 year within the budget set, or achieve the planned savings for 2022/23. The Council was forecasting a deficit for 2022/23 throughout its regular outturn forecasting, including the reporting on the additional cost pressures as they arose during the 2022/23 year. The final outturn for 2022/23 was a deficit of £11.4m. The Council has not acted swiftly in identifying the longer term impact of the pressures identified, including the impact of using reserves. Only 39% of the savings plans within the 2022/23 budget were achieved. Therefore, overspending in 2022/23, while identified and reported, did not result in sufficient mitigating actions when they were needed. This is therefore evidence that while the systems were in place to report the budget, those processes did not lead to sufficient corrective action when it was needed.

This is continuing in 2023/24, with only 79% of Directorate savings targets achieved by December 2023.

The drawdown on reserves in 2022/23 and expected for 2023/24 is such that Council have depleted their reserves to a level that means that they no longer have sufficient reserves to meet any significant shortfalls moving forwards.

The 2023/24 budget was set during the financial year 2022/23. The s151 officer warned in the 2023/24 budget setting report that insufficient action was being taken by directorates to get spending under control. The 2023/24 budget was approved, assuming a number of corrective actions would happen - which was not being demonstrated during the year. In only July 2023, a few months after the budget was set, the medium term update report instigated by the new s151 officer showed a likely overspend of £20.9m for that year. This is evidence that the 2023/24 budget, as initially set, was unrealistic.

We have also identified weaknesses in the area of how the body gains assurance over the effective operation of internal controls.

Internal Audit gave a limited assurance opinion over the effectiveness of the control environment for the Council in their annual opinion for 2022/23. This takes into account the financial position of the Council and the directorates reporting their own decline in the effectiveness of controls as noted within the annual governance self-assessments with a deteriorated overall assurance level provided for a number of key controls. Their opinion is also informed and influenced by the vulnerability of the governance framework and the associated emerging risks, financial instability together with the required pace and implications of the actions to address it. 42% of internal audits for the year were rated 'no' or 'limited' assurance.

# Value for Money Commentary (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

## Significant weakness identified

We noted that there has been a slow reaction from management to develop and deliver action plans as a result of recommendations made by Internal Audit. Of the exceptions followed-up during the year, Internal Audit noted that 56% of the actions were overdue. This has been explained as being due to the voluntary redundancy scheme which has left the authority with less experienced staff and less capacity to respond to the issues raised. This has further been exacerbated by the current financial position of the Council and the involvement in officers to address this. Focus on financial pressures has meant insufficient capacity and attention on internal control, and consequently this is exposing the Council to risks of deterioration in the control environment.

**Conclusion: Based on the work performed, the Council had proper arrangements in place in 2022/23 and into 2023/24 to make informed decisions and properly manage its risks, with the exception of the sub-criteria:**

- How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- How the body approaches and carries out its annual budget setting process; and
- How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

## **Recommendations:**

- ***The Council needs to ensure that it holds officers to account regarding delivering services within the agreed budget.***
- ***Action Plans agreed as a response to internal audit findings should be addressed in a timely manner.***

# Value for Money Commentary (continued)

Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services

## Significant weakness identified

Financial and performance information has been used to identify areas for improvement, as can be seen from the regular reporting to members throughout the period. During 2022/23 and into 2023/24, these reports have included (but are not limited to):

- Budget matters
- Council performance scorecard
- Human Resources statistics
- Revenue and capital financial monitoring
- Review of the health and social care contracts
- Risk management reports
- Safe City Partnership review
- Strategic contracts reporting
- Strategic Procurement Activity
- Treasury management outturn

We can see that short term planning has been conducted, which details a budget for the 2023/24 financial year both identifying potential shortfalls and risks as well as potential savings. We have also inspected evidence of longer term planning and performance assessment.

As previously documented, the Council reported a deficit for 2022/23, reporting on the additional cost pressures as they arose during the 2022/23 year and struggled to achieve the planned savings for 2022/23. The Council has continued to fail to achieve the planned budget for 2023/24, which already included a significant drawdown on reserves.

This is indicative that the Council, despite having the information of which examples are listed above, has struggled to use that information about its costs and performance to improve its services timely and accurately in 2022/23 with particular reference to identifying areas for improvement where those services can be brought back within budget. This has continued on into 2023/24, with the Council reporting a forecast deficit of £13.9 million against the revised budget in November 2023, and includes areas, as an example, of a lack of accurate costing and forecasting new contracts such as home to school transport.

# Value for Money Commentary (continued)

Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services

## Significant weakness identified

We reported in our 2021/22 Auditor's Annual Report that OFSTED reporting in January 2023 regarding children's services noted that, whilst trust had been eroded in the past in this area due to the Council's historical failings, good progress had been made in rebuilding 'eroded trust and confidence' and that there had been purposeful engagement with school leaders. This report also noted that feedback from the family judiciary and the Children and Family Court Advisory and Support Service indicated a vastly improved relationship with the Council.

This has continued to improve through the 2022/23 year and into 2023/24 with OFSTED noting that there had been significant cultural change since the whistleblower report in 2019 in relation to children's services. A detailed improvement plan was developed and the improvements implemented. OFSTED performed a full follow up review, reporting in July 2023, which rated the Council as Good in its Overall effectiveness, and in the areas of:

- The experiences and progress of children who need help and protection;
- The experiences and progress of children in care; and
- The experiences and progress of care leavers.

It also rated the Council as Outstanding in 'The impact of leaders on social work practice with children and families'.

The changes made indicate that the authority has the arrangements in place to continue to improve and deliver value for money in this service area. However, in the context of the financial challenges being faced by the Council, the future challenge will be to maintain this positive assessment of the delivery of services, when the finances have to be managed within budget, savings made to stabilise the immediate situation, and transformation implemented in the methods of service delivery.

**Conclusion:** Based on the work performed, we have identified that the Council had proper arrangements in place in 2022/23 to enable it to use information about its costs and performance to improve the way it manages and delivers its services, with the exception of the sub-criteria of:

- How financial and performance information has been used to assess performance to identify areas for improvement

### **Recommendation:**

*The Council needs to ensure that it has fully considered the underlying reasons for not delivering the planned budget and savings in 2022/23 and 2023/24 to date to ensure that it can improve the way it manages and delivers its services.*





# 10 Appendices

# Appendix A - Summary of arrangements

## Financial Sustainability

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23 and to date in 2023/24

Reporting Sub-Criteria	Findings
How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them	<p>The Council regularly reviews the overall short, medium, and longer-term financial position. There is a Medium-Term Financial Strategy, a medium-term Capital Programme and quarterly monitoring of revenue and capital. The Council's medium term financial model is updated regularly throughout the year and includes a 4-year financial projection which is reviewed annually and informs savings and budget reporting.</p> <p>The in-year budget position is reported monthly to the Executive Management Team (consisting of the Executive Directors). This covers both revenue and capital. This also includes discussing budget implications going forward and the latest medium-term projections, as a part of the future budget setting process.</p> <p>Quarterly reports to Cabinet on in-year financial monitoring also provide an update on a range of financial health indicators, such as collection rates for council tax, speed of collection of other income and creditor payment efficiency levels.</p> <p>Cabinet Member Briefings are held monthly for each Portfolio area, which include an agenda item for the latest budget position to ensure this is discussed by the Cabinet Member and Executive Director with support from a Finance Business Partner.</p> <p>Treasury Management forms a part of the quarterly report to cabinet, and this includes an update on the Prudential Indicators adopted by the Council. Treasury Management is also reported twice yearly to the Governance Committee – in February and November. This provides for setting out and agreeing the strategy for the year ahead and onwards, plus a mid-year update compared with the agreed strategy, and information on the prudential indicators as well as treasury activity and performance (with benchmarking information comparing SCC to other local authorities).</p> <p>Government announcements on the Settlement or Spending Review are monitored and the financial implications highlighted in briefings to Executive Directors and Cabinet Members. Business case and option appraisal is applied to major areas of investment decisions.</p> <p>The HRA operates within a 40-year time horizon for its Business Plan. This is published as part of the formal budget report papers considered by Council, but also during the year less formally at Cabinet Member Briefings and in discussion with the relevant Executive Director, as well as at Directorate Management Team meetings as part of the annual business plan cycle leading up to budget preparation.</p> <p>The HRA is also captured as part of in-year budget monitoring work and reported formally in the quarterly cycle to Cabinet, both for revenue and capital.</p>

# Appendix A - Summary of arrangements

## Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23 and to date in 2023/24

Reporting Sub-Criteria	Findings
How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them (continued)	<p>The Council maintains a Strategic Risk Assurance Report that is reviewed quarterly by the Executive Management Board. This report includes the risk of "Failure to have robust and agreed plans to address the in-year and ongoing significant budget pressures in a sustainable way". This includes consideration of any financial pressures and how these reflect on key strategic outcomes and the associated budgets. The Council's risk monitoring records the key financial risks over the short term and medium-term, and the mitigating actions that have been implemented to address the identified issues.</p> <p>We judge there to be a significant weakness in these arrangements during 2022/23. The 2023/24 budget was set during 2022/23, including a warning that insufficient actions had been taken.</p> <p>Review of the MTFS forecast in July 2023 showed a worse picture, indicating that not all pressures were properly identified.</p>
How the body plans to bridge its funding gaps and identifies achievable savings	<p>The Council has a Medium-Term Financial Strategy (MTFS) which includes a 4-year forecast of planned savings.</p> <p>In the budget setting for 2022/23 and beyond, the Council acknowledged that extensive work will be undertaken to identify savings and mitigations to address the gaps.</p> <p>We judge there to be a significant weakness in these arrangements during 2022/23. Only 39% of planned savings were delivered.</p> <p>During 2023/24 the delivery of planned savings, including through the introduced cost control measures has increased. However, insufficient progress has been made up to December 2023 to identify savings to produce a balanced 2024/25 budget and reduce the gaps for 2025/26 and beyond.</p>
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	<p>The Council's vision and has a plan which focuses on following 4 areas:</p> <ul style="list-style-type: none"> <li>• Strong foundations for life</li> <li>• A proud and resilient city</li> <li>• Prosperous city</li> <li>• A successful, sustainable organization</li> </ul> <p>The Council set out its longer-term strategic plan within the Corporate Plan 2022-30, wherein the Council sets out its priorities. This provides the strategic framework for its decision making and informs the Medium-Term financial forecast and annual budget setting.</p>

# Appendix A - Summary of arrangements

## Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23 and to date in 2023/24

Reporting Sub-Criteria	Findings
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities (continued)	<p>We judge there to be a significant weakness in these arrangements during 2022/23.</p> <p>The Council has relied on reserves to such an extent that they are expected to be diminished by £82.9m by the end of 2023/24, since 2021/22. The Council has a structural deficit that it has not yet addressed to reduce the forecast gaps in the medium term financial strategy. Therefore, finances are not being planned to support the sustainable delivery of services.</p>
How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system	<p>The Council's Medium Term Financial Strategy (MTFS) outlines the issues that affect Council services and finances and how these factors are considered in the planning and completion of MTFS. Key financial strategies such as the capital strategy, treasury management, investments and borrowings are considered in the MTFS.</p> <p>The Council's annual financial budget is aligned to activity plans, to ensure there is consistency and triangulation between all elements of the organization. Through the regularly quarterly financial monitoring including the General Fund Forecast, Capital Programme and Key Financial Risks, the Council can identify the significant financial and business risks that might affect the performance of the Council in the future, and act to address them.</p>

# Appendix A - Summary of arrangements

## Financial Sustainability (continued)

We set out below the arrangements for the financial sustainability criteria covering the year 2022/23 and to date in 2023/24

Reporting Sub-Criteria	Findings
How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans	<p>The Council maintains a Strategic Risk Assurance Report and Key Financial Risks Report which are reported quarterly to Cabinet. These reports outline all the risks identified including risks in financial pressures, service disruptions, and risks in sustainable adult social care system among others. The Council also acknowledges the risk of significant and ongoing financial pressures. Mitigations by the Council include:</p> <ul style="list-style-type: none"><li>• Medium term financial modelling and monitoring, which are reviewed quarterly.</li><li>• Having service budgets and financial forecasts that are aligned with the Council outcomes.</li><li>• Identifying and addressing significant in-year budget variances by monitoring of Capital and Revenue Monthly budgets</li><li>• Identifying delivery of new savings/income opportunities</li></ul> <p>The Council's Executive Management Board (EMB) review quarterly the Strategic Risk Assurance Report. The Risk and Insurance Service will support the EMB in identification, management, and review of Council's strategic risks. The Governance Committee also provide oversight.</p> <p>Through these mechanisms, Council can identify significant business risks including key financial risks that might affect the financial performance of the Council in the future. The risk register is updated regularly to include the summary of financial risks, how likely they are to occur, and the mitigations, process and plans the Council is putting in place to address and manage these risk areas. These mitigations are also reflected through regular update of budgets. Budgets are also updated with latest assumptions e.g., updated CPI, RPI, % change in council tax and business rates and other financial considerations including expected grants to be received, and probable financial pressures.</p> <p>We judge there to be a significant weakness in these arrangements during 2022/23. The CIPFA financial review reported that Southampton went into the year with non-school usable reserves of £49.59m, having used almost half of its usable reserves to support the 2022-23 budget. The General Fund Balance was at £10.07m. The February budget envisaged drawing on £20.6m to leave non balance useable reserves of just c£20m. This was equivalent to just 11% of expected 2023-24 net expenditure. This was an already precarious position, especially in the light of then known likely further rises in demand for social care and children's services.</p>

# Appendix A - Summary of arrangements

## Governance

We set out below the arrangements for the governance criteria covering the year 2022/23 and to date in 2023/24

### Reporting Sub-Criteria

### Findings

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

Internal controls are monitored and assessed by the Governance Committee to ensure that they are appropriate and effective. An Internal Audit plan is agreed on an annual basis with the results of internal audit work and the embedding of recommendations reviewed by the Governance Committee. The Committee also considers assurance in respect of the risk processes in place across the organization.

**We judge there to be a significant weakness in these arrangements for 2022/23. Internal Audit provided an annual opinion of Limited Assurance. They also reported a lack of action being taken by management to effectively respond to the findings of their reports, and put in place appropriate improvements in controls and processes. Focus on financial pressures has meant insufficient capacity and attention on internal control.**

How the body approaches and carries out its annual budget setting process

The Council meets every February, to set the Budget and Council Tax. The Budget and MTFS will be presented to the Council based on an assessment at a granular level of income, expenditure workforce, capacity, and efficiency plans. The impact of these plans is triangulated with operational, performance and workforce lead officers.

In our previous section on Financial Sustainability, we set out various processes the Council uses to set the strategic framework and provide a medium-term financial forecast from which the annual budget derives.

It continuously monitors the financial position through the year for any additional costs that need to be considered. The Council updates budgets as new information and data becomes available. These are considered when rolling forward the MTFS model, which is then revised considering pressures, assumptions, and policy decisions, and how these are expected to impact costs, income & savings.

There is also a regular monitoring of levels of reserves to ensure these are sufficient to meet unexpected costs. They will then be reflected in the budget forecasts made by the finance team, which are reported monthly to the Senior Management Team - and are discussed monthly with the relevant Business Partners.

The annual budgeting process then engages the services at the detailed level to determine the impacts and specifics for their specific budgets.

**We judge there to be a significant weakness in these arrangements for 2022/23.**

The budget for 2023/24 was prepared during the 2022/23 financial year.

It included a further draw on reserves, on top of needed from the 2022/23 outturn, as the council had not got to grips with the overspends from the previous 2022/23 financial year, and the s151 officer warned without further action a s114 notice was increasingly likely. In our judgement this was the first deficiency in the 2023/24 budget, as it made unrealistic assumptions that the cost pressures could be managed given the lack of action.

# Appendix A - Summary of arrangements

## Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2022/23 and to date in 2023/24

### Reporting Sub-Criteria

### Findings

How the body approaches and carries out its annual budget setting process (continued)

The new s151 officer instigated a review of the budget and medium term financial strategy, which was presented in July 2023, only a few months after the 2023/24 was initially produced. This review showed a forecast of £20.9 million overspend, which in our judgement illustrates that the budget was not realistic and is another characteristic of significant weakness.

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

Decisions are made by the Executive Body being the Leader and Cabinet, within the overall policy and budgetary framework approved by Full Council. Any decisions the Executive wishes to take outside of the framework must be referred to Full Council to decide. The Cabinet will develop and propose to Council corporate strategies and plans, and will prepare proposals for the annual budget, which it will recommend to Full Council. The Cabinet will also keep under review the allocation of resources necessary to meet the Council's responsibilities. Scrutiny committees monitor the work of the Executive Body.

The Governance Committee is independent of the executive (Cabinet) and scrutiny functions and is embedded as a key part of the Council's overall governance framework. Its terms of reference are aligned to CIPFA's best practice standards for audit committees. This Committee ensures that the Council is managing risks properly and that proper audit arrangements are in place.

The Council receives quarterly updates on financial performance, with monthly reports being taken to Cabinet from 2023/24, these were also previously quarterly. These take the form of update reports that summarize the overall position during the year to date and projections against the budget. They also include financial health (balance sheet) indicators, and Treasury Management reports.

Management teams receive more detailed monthly reports that examine the income and expenditure of the directorate and associated services on a line-by-line basis. The information is drawn from the financial ledger, and management place reliance on the controls established through the financial rules and procedures within those specific transaction systems, and on the annual programme of work undertaken by internal audit.

We note that within the Constitution of the Council there are processes and procedures in place to ensure the body has effective processes and systems in place to ensure budgetary control, to communicate relevant, accurate and timely management information; to support its statutory financial reporting requirements and to ensure the body is taking corrective action where needed.

# Appendix A - Summary of arrangements

## Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2022/23 and to date in 2023/24

Reporting Sub-Criteria	Findings
How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed (continued)	<p>We judge there to be a significant weakness in these arrangements for 2022/23. The 2022/23 budget was overspent, as actions were not taken sufficient to offset pressures including only 39% savings plan delivery. Within the 2023/24 budget setting, the s151 officer warned without further action a s114 notice was increasingly likely. The s151 officer raised concerns over the lack of decisions and actions within directorates being taken to get expenditure back under control.</p> <p>In 2023/24 the budget is still forecast to overspend. As of November 2023, this was a forecast £13.9m overspend.</p> <p>Therefore, this is evidence that while the budget overspend is being reported, there is insufficient corrective action being taken across the Council's directorates.</p>
How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee	<p>The Council has several Committees in place, established through its Constitution.</p> <p>The Constitution includes the roles and responsibilities of the Executive, Committees, Full Council, and chief officers. It also sets out the rules under which they operate; how decisions are made and how procedures are to be followed to ensure that actions are efficient, legal, transparent, and accountable to the community. Officers prepare reports for each of the Committees to enable decision making, as evidenced by the relevant section of the Council website. Resource implications are factored into all decisions, with a dedicated section in reports both to Councillors and to the Executive Management Team.</p> <p>The Council is made up of 51 Councillors which meet regularly to make key decisions including setting the Budget and Council Tax, while Cabinet reviews activity and portfolios/directorates to ensure operations are in accordance with the Budget and strategic plans.</p> <p>Overview and scrutiny arrangements are in place to review decision making.</p> <p>The Council has a Governance Committee which has responsibility for oversight of the scope and effectiveness of the internal control, and systems established by management to identify, assess, manage, and monitor financial and non-financial risks (including measures to protect against, detect and respond to fraud).</p> <p>Annually the Chief Internal auditor is required to produce an Annual Plan which sets the scope and detailed areas for review of the Authority's functions, with subsequent reporting to the Governance Committee.</p> <p>The Governance Committee sees and comments on the Annual Governance Statement, which would highlight any overall concerns including those which may affect value for money. It is reviewed as both a draft and final document.</p>



# Appendix A - Summary of arrangements

## Governance (continued)

We set out below the arrangements for the governance criteria covering the year 2022/23 and to date in 2023/24

### Reporting Sub-Criteria

### Findings

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee

The Council has several Committees in place, established through its Constitution.

The Constitution includes the roles and responsibilities of the Executive, Committees, Full Council, and chief officers. It also sets out the rules under which they operate; how decisions are made and how procedures are to be followed to ensure that actions are efficient, legal, transparent, and accountable to the community. Officers prepare reports for each of the Committees to enable decision making, as evidenced by the relevant section of the Council website. Resource implications are factored into all decisions, with a dedicated section in reports both to Councillors and to the Executive Management Team.

The Council is made up of 51 Councillors which meet regularly to make key decisions including setting the Budget and Council Tax, while Cabinet reviews activity and portfolios to ensure operations are in accordance with the Budget and strategic plans.

Overview and scrutiny arrangements are in place to review decision making.

The Council has a Governance Committee which has responsibility for oversight of the scope and effectiveness of the internal control, and systems established by management to identify, assess, manage, and monitor financial and non-financial risks (including measures to protect against, detect and respond to fraud).

Annually the Chief Internal auditor is required to produce an Annual Plan which sets the scope and detailed areas for review of the Authority's functions, with subsequent reporting to the Governance Committee.

The Governance Committee sees and comments on the Annual Governance Statement, which would highlight any overall concerns including those which may affect value for money. It is reviewed as both a draft and final document.

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

The Council operates strict Standards of Business Conduct rules as laid out in the policy of the same name. All decision-making staff as described in the policy are required to adhere to this policy and make disclosures as required. A Register of Interests is held. In addition, there is a gifts and hospitality register to declare any gifts etc. received or offered along with whether they have been accepted or declined.

There is a standing agenda for the council to declare any interest on meetings which ensures that members declare their interest in every meeting they attend.

# Appendix A - Summary of arrangements

## Improving economy, efficiency and effectiveness

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the year 2022/23 and to date in 2023/24

Reporting Sub-Criteria	Findings
How financial and performance information has been used to assess performance to identify areas for improvement	<p>The financial information and non-financial information is made public on the Southampton city council website. We can observe from the minutes of meetings of the council that financial and performance information has been used throughout the year.</p> <p>We have commented before on arrangements for financial monitoring and risk management, reviewed on a quarterly basis.</p> <p><b>We judge there to be a significant weakness in these arrangements for 2022/23. While it has reported financial and performance information, the council's lack of management of the budget during the year and ongoing overspending is indicative that the Council has struggled to use information about its costs and performance to improve its services and manage them within budget timely and accurately in 2022/23</b></p>
How the body evaluates the services it provides to assess performance and identify areas for improvement	<p>The most notable area for improvement during the year relates to the Children and Learning Directorate. In early 2020 the Council received a whistle-blower report which followed on from an OFSTED report in 2019 which noted that the council required improvement across all areas of the service. We reviewed these issues on our previous year audit.</p> <p>In this financial year there is evidence of continued improvement. We note that OFSTED performed a 'focused visit' reporting in January 2023. This report noted several considerable improvements, and noted that senior leaders demonstrated a 'balanced, accurate self-assessment on the quality of frontline practice' and that an extensive workforce and practice transformation is in progress. The report also noted that there had been significant cultural change since the whistle-blower report. A detailed improvement plan was developed and the improvements implemented. The Council received a follow up report in July 2023, which rated them as good in four of the areas reviewed and outstanding in the fifth. The changes made indicate that the authority has the arrangements in place to continue to improve and deliver value for money in this area</p>
How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve	<p>We can see from published documents that the council has several strategies that involve working with key partners including local businesses, local police/fire services and local health services. These include a strategy for Health and Care which detailed its commitment to working with local NHS organizations.</p>

# Appendix A - Summary of arrangements

## Improving economy, efficiency and effectiveness (continued)

We set out below the arrangements for improving economy, efficiency and effectiveness criteria covering the year 2022/23 and to date in 2023/24

Reporting Sub-Criteria	Findings
How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits	The Council has a procurement policy, which is publicly available and therefore available for public scrutiny. It clearly states several principles, as well as strategic initiatives to further improve its procurement practices. This policy document details several of the arrangements we would expect to see in good governance, and includes commitments to reduce spending with external suppliers, to maintaining up to date information on all procurement activity, centralization of buying activity over £1k, and maintaining a centralized contract register.

# Appendix B – Summary of recommendations

## Recommendations

The table below sets out the recommendations arising from the value for money work in the year(s) covered in this report, 2022/23 and to date in 2023/24. All recommendations have been agreed by management.

Issue	Recommendation	Management response
Financial Sustainability	<ol style="list-style-type: none"> <li>1. The Council needs to ensure that it has fully considered all options for achievable savings that it can make to reduce the pressure on reserves and achieve a balanced budget.</li> <li>2. Savings need to be supported by robust delivery plans and monitored closely to ensure that they are achieved within planned timeframes.</li> <li>3. The Council needs to demonstrate that it can operate within its planned budget and control its expenditure, across all services.</li> <li>4. A transformation plan to underpin savings into the medium term needs to be developed.</li> </ol>	
Governance	<ol style="list-style-type: none"> <li>5. The Council needs to ensure that it holds officers to account regarding delivering services within the agreed budget.</li> <li>6. Action Plans agreed as a response to internal audit findings should be addressed in a timely manner.</li> </ol>	
Improving economy, efficiency and effectiveness	<ol style="list-style-type: none"> <li>6. The Council needs to ensure that it has fully considered the underlying reasons for not delivering the planned budget and savings in 2022/23 and 2023/24 to date, to ensure that it can improve the way it manages and delivers its services</li> </ol>	

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UKC-024050 (UK) 07/22. Creative UK.

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